

**THE INFLUENCE OF CUSTOMER PERCEIVED  
VALUE AND ATTITUDE TOWARD LOCAL  
SUPERMARKET CHOICE**

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**THE INFLUENCE OF CUSTOMER PERCEIVED  
VALUE AND ATTITUDE TOWARD LOCAL  
SUPERMARKET CHOICE**

**by**

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## TABLE OF CONTENTS

Acknowledgements	ii
Table of contents	iii
List of Tables	vii
List of Figures	ix
List of Appendices	x
List of Abbreviations	xi
List of Publications	xii
Abstrak	xiii
Abstract	xv

### CHAPTER 1 - INTRODUCTION

1.1	Background of the study	1
1.2	Research Problem	2
1.3	Research Questions	7
1.4	Research Objectives	7
1.5	Scope of study	8
1.6	Significance of the study	9
1.6.1	Theoretical significance	9
1.6.2	Practical significance	11
1.7	Definition of terms	12
1.8	Organisation of the thesis	14

### CHAPTER 2 - LITERATURE REVIEW

2.1	Overview of retailing	16
2.1.1	Types of grocery retail shop	17
2.1.2	Retailing and consumer behaviour	19
2.1.3	Retailing in Malaysia	20

2.2	Theoretical Underpinning: Tricomponent Model of Attitudes	28
2.2.1	Standard Learning Hierarchy	29
2.2.2	Low Involvement hierarchy	30
2.2.3	Experiential Hierarchy	30
2.3	Previous store choice studies	30
2.4	Consumer perceived value	37
2.5	The dimensions of perceived value	42
2.5.1	Monetary value dimension	42
2.5.2	Functional quality value dimension	46
2.5.3	Convenience value dimension	48
2.5.4	Emotional value dimension	50
2.5.5	Social value dimension	53
2.6	Customer attitude in consumer behaviour	56
2.6.1	Functions of customer's attitude	56
2.7	Customer attitude as mediator	58
2.8	Theoretical framework	62
2.9	Hypotheses of the study	64
2.9.1	Monetary value dimension	64
2.9.2	Functional quality value dimension	66
2.9.3	Convenience value dimension	67
2.9.4	Emotional value dimension	68
2.9.5	Social value dimension	69
2.9.6	Attitude toward the store and store choice construct	70
2.10	Summary	71

## **CHAPTER 3 – RESEARCH METHODOLOGY**

3.1	Research Design	72
3.1.1	Households	73
3.1.2	Supermarkets	74
3.1.3	Penang State	77
3.2	Unit of Analysis	77
3.3	Population	78
3.4	Sample size and sampling technique	78
3.5	Data collection procedures	80
3.5.1	Nonresponse issue in survey data collection	80
3.6	Research instrument	83
3.7	Data analysis techniques	94
3.7.1	Frequency analysis	95
3.7.2	Factor analysis	96
3.7.3	Means ranking	97
3.7.4	Cronbach's alpha	97
3.7.5	Structural Equation Modeling	98
3.8	Pretesting the questionnaire	104
3.9	Summary	105

## **CHAPTER 4 - FINDINGS**

4.1	Demographic profile of respondents	106
4.2	Grocery shopping pattern	110
4.3	Validity test – factor analysis	116
4.4	Means ranking on perceived value dimensions	119

4.5	Cronbach's alpha	124
4.6	Structural equation modeling	125
4.6.1	Confirmatory Factor Analysis	127
4.6.2	Measurement model: Goodness of fit (all variables)	130
4.6.3	Structural model	136
4.6.4	Path coefficients and explanatory power	137
4.7	Summary	143

## **CHAPTER 5 – DISCUSSION AND CONCLUSION**

5.1	Introduction	144
5.2	Recapitulation	144
5.3	Discussion on the relationships between perceived value dimensions, attitude toward the store and supermarket choice	149
5.4	Contributions of the study	171
5.4.1	Theoretical contribution	171
5.4.2	Practical contribution	175
5.4.3	National contribution	183
5.5	Limitations of the research	186
5.6	Suggestion for future researches	188
5.7	Conclusion	189

<b>REFERENCES</b>	191
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## **APPENDICES**

## **LIST OF TABLES**

	<b>Page</b>
Table 2.1 History of Retailing in Malaysia	21
Table 2.2 Sales (RM Million) in Store-Based Grocery Retailing from Year 2006 to 2011	24
Table 2.3 Grocery Retailers Brand Shares: % Value 2007-2011	25
Table 2.4 Previous Store Choice Studies	32
Table 3.1 Penang population and household at year 2010 by different districts	73
Table 3.2 Penang Supermarkets Selected as Research Sites	76
Table 3.3 Supermarket Choice, Perceived Value Dimensions, Attitude Toward the Store and Demographic Measurements	84
Table 3.4 Monetary Value Dimension Measurement Items	86
Table 3.5 Functional Quality Value Dimension Measurement Items	87
Table 3.6 Convenience Value Dimension Measurement Items	88
Table 3.7 Emotional Value Dimension Measurement Items	90
Table 3.8 Social Value Dimension Measurement Items	91
Table 3.9 Customer Attitude Toward the Store Items	92
Table 3.10 Supermarket Choice Measurement Items	93
Table 3.11 Data Analysis Techniques	94
Table 3.12 Goodness Of Fit (GOF) Criteria and Acceptable Fit Interpretation	102
Table 3.13 Pretest Results	105
Table 4.1 Demographic Profile of the Respondents	107
Table 4.2 Grocery Shopping Patterns	110
Table 4.3 Grocery Shopping Frequency (by Percentage) according to its Categories	112



Table 4.4	Shopping Frequency (by Percentage) at Different Supermarkets in Penang	114
Table 4.5	KMO and Barlett's Test	116
Table 4.6	Total Variance Explained	117
Table 4.7	Summary of Factor Analysis	118
Table 4.8	Summary of Means Ranking of Perceived Value Dimensions by Shoppers in Different Supermarkets	120
Table 4.9	Cronbach's Alpha for the Constructs	124
Table 4.10	Codes of the Variables in SEM	125
Table 4.11	Codes of the Indicator Variables in SEM	126
Table 4.12	Item loadings of Latent variables	128
Table 4.13	Convergent validity of the constructs	129
Table 4.14	Discriminant validity	130
Table 4.15	Fit Indices for Measurement Model	132
Table 4.16	Highest MI scores	134
Table 4.17	Suggestion to Correlate Error Terms	134
Table 4.18	Fit Indices for Structural Model	136
Table 4.19	Standardize path estimates and mediation type observed in the direct effects (without mediator), direct effects (with mediator) and indirect effects	140
Table 5.1	List of Tested Hypotheses	147

## LIST OF FIGURES

	<b>Page</b>
Figure 2.1    The theoretical framework of this study	64
Figure 3.1    Data collection procedure diagram for this study	82
Figure 4.1    Measurement model	131
Figure 4.2    Structural model results	139
Figure 5.1    Final model with only significant paths	149

## **LIST OF APPENDICES**

	<b>Page</b>
<b>APPENDIX A</b> SAMPLE QUESTIONNAIRE	210
<b>APPENDIX B</b> LIST OF CHAIN SUPERMARKETS IN PENANG	217
<b>APPENDIX C</b> FREQUENCIES	220
<b>APPENDIX D</b> FACTOR ANALYSIS	231
<b>APPENDIX E</b> MEANS	235
<b>APPENDIX F</b> MEANS RANKING	244
<b>APPENDIX G</b> CRONBACH'S ALPHA	246
<b>APPENDIX H</b> NORMALITY, LINEARITY, HOMOSCEDACITY AND MULTICOLINEARITY	249
<b>APPENDIX I</b> ITEM LOADINGS OF LATENT VARIABLES	253
<b>APPENDIX J</b> MEASUREMENT MODEL FIT INDICES BEFORE MODIFICATION	254
<b>APPENDIX K</b> MEASUREMENT MODEL FIT INDICES AFTER MODIFICATION	255
<b>APPENDIX L</b> STRUCTURAL MODEL FIT BEFORE MODIFICATION	256
<b>APPENDIX M</b> STRUCTURAL MODEL FIT AFTER MODIFICATION	257
<b>APPENDIX N</b> STRUCTURAL MODEL RESULTS	258

## LIST OF ABBREVIATIONS

<b>AGFI</b>	Adjusted Goodness of Fit
<b>df</b>	Degrees of Freedom
<b>CFI</b>	Comparative Fit Index
<b>AGFI</b>	Adjusted Goodness of Fit
<b>KMO</b>	Kaiser-Meiyer-Olkin
<b>PERVAL</b>	Perceived Value
<b>RM</b>	Ringgit Malaysia
<b>RMSEA</b>	Root Mean Square Error of Approximation (RMSEA)
<b>SEM</b>	Structured Equation Modeling
<b>TLI</b>	Tucker Lewis Index

## LIST OF PUBLICATIONS

Kua, J.S.B. & Kua, J. S. I. (2012). Past, present and future: Transformations in Malaysia's grocery shopping patterns. In Siti Hasnah Hassan & Malliga Marimuthu (Eds.) *The Changing Consumer and Market Landscape in Malaysia* (pp. 1-30). (in press)

# **PENGARUH NILAI PERSEPSI PENGGUNA DAN SIKAP PENGGUNA KE ATAS PILIHAN PASARAYA**

## **ABSTRAK**

Dalam persekitaran peruncitan yang kompetitif, pendapatan dan populariti stor runcit banyak bergantung kepada pilihan pengguna untuk memilih stor tersebut. Banyak kajian telah memberi tumpuan kepada pembeli yang menilai ciri-ciri stor seperti contoh harga barangan, persekitaran stor, kualiti and kemudahan stor yang akan membentuk sikap mereka terhadap stor yang kemudiannya mempengaruhi pilihan stor pasaraya. Walaupun ciri-ciri stor meramal pilihan pasaraya mengikut literatur, kajian-kajian mengenai nilai persepsi pengguna yang mempengaruhi pilihan stor terutamanya pilihan pasaraya adalah kurang. Trend terkini adalah nilai persepsi pengguna yang memandu pengguna untuk memilih pasaraya mereka. Oleh itu, kajian ini menyelidik pengaruh nilai persepsi pengguna ke atas pilihan pasaraya yang dibuat oleh penduduk Pulau Pinang. Kajian ini mencadangkan pilihan pasaraya adalah dipengaruhi sikap pengguna yang dipandu oleh pelbagai dimensi, iaitu nilai wang, kualiti fungsian, kemudahan, emosi dan sosial. Responden dalam kajian ini adalah ahli-ahli yang mewakili isi rumah mereka masing-masing di Pulau Pinang. Teknik persampelan yang digunakan adalah persampelan konvenien. Hasil daripada teknik analisis model persamaan struktur menunjukkan terdapat hubungan signifikan antara dimensi-dimensi nilai wang, nilai kemudahan dan nilai sosial dengan pilihan pasaraya walaupun mediasi muncul dalam hubungan tersebut. Kajian ini telah menyumbang secara teoritikal. Pertama, sumbangan utama kajian ini ialah merangkumkan sikap pengguna dalam meramal pengaruh persepsi nilai pengguna ke atas pilihan pasaraya. Kedua, kajian ini telah berjaya menghubungkan

nilai dimensi-dimensi dengan pilihan pasaraya. Ketiga, kajian ini telah melanjutkan model nilai persepsi pengguna dengan menyesuaikan model tersebut dalam konteks peruncitan. Sebelum ini, kajian-kajian lepas hanya memakai model nilai persepsi pengguna ke atas produk. Keempat, kajian ini menyahut panggilan oleh penyelidik-penyelidik (dari literatur mengenai nilai persepsi pengguna) untuk menghubungkan nilai persepsi pengguna dengan tingkah laku peruncitan. Akhir, kajian ini adalah tambahan untuk literatur yang menyokong konsep nilai persepsi pengguna adalah multidimensi. Secara praktikal, kajian ini menggalakkan pengurus pasaraya-pasaraya tempatan untuk mengambil perhatian nilai persepsi pengguna ke atas stor-stor mereka supaya dapat menambah kunjungan pengguna, jualan dan keuntungan. Antara sumbangan-sumbagan praktikal adalah menetapkan harga yang bernilai, mencipta strategi yang menggalakan kemudahan kepada pengguna, menggalakkan emosi pengguna semasa membeli belah dan mencipta strategi yang membezakan pasaraya tempatan daripada saingan luar negaranya. Pada masa hadapan, kajian boleh menumpu kepada format stor yang lain atau melanjutkan model kajian ini dengan menambahkan konsep-konsep lain seperti ciri-ciri demografik pengguna.

# **THE INFLUENCE OF CUSTOMER PERCEIVED VALUE AND ATTITUDE TOWARD LOCAL SUPERMARKET CHOICE**

## **ABSTRACT**

In the competitive environment of retailing, the income and popularity of grocery stores are much dependent on customer's choice to their stores. Many studies have focused on shoppers on evaluating store attributes such as merchandise prices, store atmosphere, quality and store convenience that form their attitude toward store and in turn affect supermarket choice. Although store attributes predicted store choice in the literature, there has been lack of researches that investigate perceived value influence on store choice, in particular supermarket choice. The current trend of customers is the perceived value that drives the choosing of a supermarket. Noting that, this study investigates the influence of customers' perceived value on supermarket choice made by residents in Penang state. It is proposed that supermarket choice is influence by customer attitude driven by various dimensions of perceived value, which are functional price, functional quality, convenience, emotional and social value. The respondents are members representing their respective households in Penang state with convenience sampling are employed. Structured equation modeling analysis revealed that however, there is significant relationship between monetary value, convenience value and social value on supermarket choice even when mediation comes to play. This study makes several theoretical contributions. First, its main contribution is to have customer attitude to predict the influence of perceived value on supermarket choice. Second, this study has successfully linked perceived value dimensions to supermarket choice. Third, this study has advance perceived value model by adapting to retail context as previous studies it is



applied mostly in a product setting. Fourth, it responded calls made by scholars in perceived value literature to pair perceived value with retail outcome. Last but not least, this study adds to literature stream that backed perceived value as multidimensional construct. On the practical side, the study encouraged local supermarkets managers to take heed customer perception of value on their stores so that they could attract more traffic, revenue and income to their supermarkets. Among the practical contributions are setting value pricing, creating strategy that promotes convenience value, engage on customers' emotions during grocery shopping and generate a differentiation strategy that set supermarket apart from foreign competitors. Future studies may focus on other store formats or extend the model of this study by including other concepts such as demographic characteristics of the consumers.

# **CHAPTER 1**

## **INTRODUCTION**

This chapter begins with a background of this study. It will provide retailing in general, retail shops types and the retail industry in Malaysia. After the background, this chapter continues with the research problem, followed by research questions, research objectives, scope of study, significance of the study and definition of terms. At the end of the chapter, an organization of this study is provided.

### **1.1 Background of the study**

Retailing is a specialised field in marketing discipline. It is defined as selling products and services to the final customer for personal, family or household use (Cox & Brittain, 2004). In another definition, retailing is a collection of activities that add value to products and services before sold to the end users, who may be either individual or family (Levy & Weitz, 2001). Generally, retailing is about selling products and services to the final customer. Historically, this statement was true where retailing mostly take place at shops (Cox & Brittain, 2004). However, retailing today is beyond the selling activity because it has expanded to a much broader scope. Thus, retailing is a complex activity in the supply chain.

Generally, retailers play an important role in the supply chain, which has many stages. In the supply chain, it begins with raw materials that go through manufacturer to add value before being shipped or sent to the retailers who will distribute to final customers (Newman & Cullen, 2002). In this chain, the retailer is the middle person

between the manufacturers and the end users. Thus, it is very important for retailer to interact with the parties especially when cooperating with the manufacturer. This is to ensure that retailers will stock products that as close as possible to customer needs and wants. In the end, retailers would achieve customer satisfaction.

In retailing, the customer's role is to do their shopping, which is an activity to shop for goods and services (Newman & Cullen, 2002). Retailers are responsible to attract them to shop at their stores so that customers would able to generate more profits, sales and traffic patronage. Thus, attracting customers are essential for retailers.

## **1.2 Research Problem**

It has become common that customers make the most purchasing decisions, including choosing a store to shop for groceries. To date, retail market is saturated with many grocery formats ranging from brick and mortar to online retailing and leaves the customer to decide which one to patronise (Levy & Weitz, 2008). However, customer may not necessary to shop at all stores because they choose to patronise the ones that are deemed acceptable to them only while the unacceptable ones are losing out the customer (Engel, Blackwell, & Miniard, 1995). Thus, it is important for retailer to understand on they actually rely much on this customer decision to shop at their stores.

In consumer behaviour discipline, customer will form an attitude toward not only the product but the stores as well. Researchers have found positive relationship between customer attitude to the store and store choice (for example, Dong-Mo, 2003; En-Chi & Bo, 2010; Y. Hassan, Nik Muhammad, & Abu Bakar, 2010; Jantan & Kamaruddin, 1999;

Kashem, 2012). For instance, customer's attitude on the store has influenced on patronage of a discount store (Dong-Mo, 2003) while some form attitude on hypermarket stores before selecting one (En-Chi & Bo, 2010). The reason of such positive relationship in past researches is that customer forms some disposition on the store, which in turn will form an attitude, and guide the customer whether to patronise the store (Granbois, 1981). Following that, it is very important to create for retailers to create a store in such a way that customer will form positive attitude on it so to increase store patronage as well as loyalty (Jantan & Kamaruddin, 1999).

There are many factors that customer can shape their attitude toward the store. Many studies have focused on shoppers evaluating store attributes (such as merchandise prices, store atmosphere, store quality and store convenience) that form their overall attitude toward the store and in turn affect store choice (Dalwadi, Rathod, & Patel, 2010; Ghosh, Tripathi, & Kumar, 2010; Grewal, Baker, Levy, & Voss, 2002; Hsieh & Stiegert, 2012; Palma, Emerson, & House, 2003; Wanninayake & Randiwela, 2007, October). Unfortunately, there are not enough researches to study the impact of customer perceived value on store choice. The attitude towards the store is not driven by perception of value but by store attributes. Indeed, the perception of value constructs is different from store attribute constructs. For instance, convenience and store atmosphere attributes are not perceived value constructs that could form the attitude toward the store. Hence, it is very important for the study to look into such relationship.

In consumer perceived value literature, many studies about perceived value on product level have existed. The literature has been focusing on the utility derived from

the product (Chu & Lu, 2007; Jozée, 2000; Ruiz-Molina & Gil-Saura, 2008; Sánchez, Callarisa, Rodríguez, & Moliner, 2006; Sparks, Butcher, & Bradley, 2008; Turel, Serenko, & Bontis, 2007). Still, it is unfortunate that the consumer perceived value model is too product centric as there is lack in literature about the utility derived from a store (such as Ugur & Emin, 2009), as if that retail store is unable to deliver value to its customers. Shoppers are assumed to judge value on product alone without consideration on store's performance. For instance, the customer perceived value is unable to measure convenience derive from the store because Sweeney and Soutar (2001) mention that utility can be derived functionally on the usage of the product only but do not said anything about perception on convenience provided by the store. Therefore, it is imperative to study customer perceived value in retailing context that take into account the store aspects and characteristics.

Customer have already mastered the art of trading up when comes to shopping (Forseter, 2009; In Focus, 2006). Previously, customers' shopping attitude did not emphasis much on value. However, trading down is the new trend as global survey suggested that customer attitude consist of perceived value as the number one factor in choosing grocery stores, beating store location which previously ranked as first (Nielsen, 2008). For this reason, it is very important for retailers to satisfy the customer attitude driven by perceived value in order to satisfy customers' need and desire when shopping for groceries.

There have been very much studies of perceived value in unidimension (such as Agarwal & Teas, 2001; Dodds & Monroe, 1985; Dodds, Monroe, & Grewal, 1991).

Unidimension here includes the price and quality relationship and customer are thought to assess value by these aspects. However, perceived value assessment is much more than price and quality because Sweeney and Soutar (2001) proposed perceived value is multidimensional, which consists of monetary value, functional quality, emotional and social dimensions. This viewpoint is important because they argued for more complicated measure of perceived value as unidimension is simplistic and has left out the human aspects such as emotional and social dimensions. Therefore, the study will look into multidimensional perceived value so to understand the key dimensions that can motivate customers (Timo, Hannu, & Lasse, 2007) to patronise a store.

Perceived value constructs is not to be equated as consumer behaviour constructs. Graf and Maas (2008) have highlighted that both perceived value and customer satisfaction are different and independent constructs. Although both are dissimilar, many authors have call for linkage between perceived value to other marketing constructs (Chu & Lu, 2007; Julian Ming-Sung, Edward Shih-Tse, Julia Ying-Chao, & Shiri, 2009; Ruiz-Molina & Gil-Saura, 2008; Shu-Ching & Quester, 2006; Tam, 2004; Turel, et al., 2007). These researches are not only suggesting that perceived value construct is independent of store choice but also implied that perceived value is to be studied with store choice. Despite many calls made in the literature, only few scholar works concentrate on perceived value with retail outcomes (Carpenter, 2008) and this also suggest that there are less works about perceived value on store choice. Thus, it is important for this study to address the gap between perceived value and store choice in one comprehensive model.

In Malaysia's modern grocery retailing, the top formats are hypermarkets and supermarkets (Euromonitor International, 2012a). Although they are top formats, supermarket growth is lower when compared to hypermarkets in recent years. In 2011, their value growth of supermarkets is 6% while hypermarkets attained 11%. Hypermarkets have advantage on location economics of scale which something that supermarkets are lacking. Further, most of the supermarkets are local powerhouses (Euromonitor International, 2012a), which may be disadvantage as their supermarket may have limited expertises compared to hypermarkets' vast knowledge and skill to run the grocery business. Thus, it is imperative to study supermarkets in hope that they can gain competitive advantage and edge over its competitors, such as the hypermarkets.

In Malaysia, the retailing scene consists of local and foreign players (Mad Nasir Shamsudin & Jinap Selamat, 2005). Foreign retailers dominated the grocery retailing scene such as Giant, Tesco and Carrefour. As a result of strong competition from the foreign retailers, their dominance has eroded the sales of local major supermarket chains (Euromonitor International, 2012a). Thus, it is better for this study to focus on Malaysian supermarket retailers that more deserve to receive help as the dominant big and foreign hypermarkets are already biggest earner in Malaysia's modern grocery industry (Euromonitor International, 2012a).

As Malaysia is a country divided that by many states, the focus is on Penang state. Penang is chosen for this study because its consumer psyche is said to be prudent in spending, where it has been called 'kiam siap' attitude (2011). 'Kiam siap' is a Hokkien (a Penang Chinese dialect) word that is used to stereotype Penangites who are careful

with their money by spending sparingly and calculating extremely ("Chin chai or kiamsiap?," 2004). With such psyche, this suggested that they will really appreciate grocery shopping that can result in money's worth spending. Therefore, it is imperative to study Penangites perceived value on choosing supermarkets.

### **1.3 Research Questions**

From the problem statement, this study will embark on the following questions,

- What are the effects of perceived value on supermarket customers' attitude toward store?
- What is the relationship between customers attitude and store choice decision in the context of supermarket?
- Does the supermarket customers' attitude toward store mediate the relationship between perceived value dimensions and store choice decision in the context of supermarket?

### **1.4 Research Objectives**

From the research questions generated, the research objectives are formulated:

- To examine the impact of perceived value dimensions (monetary, functional quality, convenience, emotional and social dimensions) on supermarket's customer attitude
- To examine the relationship between supermarket's customer attitude and supermarket choice



- To determine whether supermarket's customer attitude mediate the relationship between perceived value dimensions and supermarket choice

### **1.5 Scope of study**

This study is a research survey that is carried out in Penang, Malaysia. It will pick only locally owned chain supermarkets in Penang as research sites to survey shopper's supermarket choice. Respondents of this study are the members representing their household, who does shopping for their unit. Information regarding Penang, the household and supermarkets are detailed in research settings in chapter three. The supermarket choice is measured in six aspects, first, likelihood of shopping at particular supermarket, second, willingness to buy groceries at the supermarket, third willingness to recommend the supermarket to shopper's friends (Grewal, et al., 2002), fourth, would prefer shopping at the supermarket, fifth, would try the supermarket first and final, would feel comfortable shopping at this supermarket (Hu & Jasper, 2006). The concept of value is the customers' viewpoint and customers assign value to the stores. In addition, the value is defined by price versus benefits perceived on the supermarket. In this way, the perceived value are divided into dimensions, which are monetary value, functional quality (Sweeney & Soutar, 2001), convenience value (Lun & Xiaowo, 2008), emotional and social dimension (Sweeney & Soutar, 2001), all which consumers will evaluate the supermarket store including its environment and groceries. Customer attitude toward the store is referring to customer's impression or favour on supermarkets selected in this study.

## **1.6 Significance of the study**

This study will make some significance to theory and also helps the retail industry in Penang and Malaysia as a whole.

### **1.6.1 Theoretical significance**

The first theoretical significance relates to store choice concept. Most store choice studies relied heavily on consumers' store attitude, which are formed by perceptions on store attributes such as price, store convenience and store atmosphere. However, the attitude toward the store is a general one and discounted the possibility that it could be formed by customer perception of value. Thus, this study attempts to bridge the gap by examine the influence of perceived value driven store attitude to store choice, which is the supermarket choice in this study.

Second, this study presented another significance relating to the perceived value model by Sweeney and Soutar (2001). This model explained that customers can gain utility functionally, emotionally and socially on a product. However, the model assumed no store environment and retailing aspects in customer gain on utility. If doing away the utility gain from the product but focusing on utility gained from the store, the customer assessment of value on the supermarket stores can be measured. This can be demonstrated in the following: perceived value measurement is possible on supermarket's groceries price (monetary value), supermarket's groceries quality (functional quality value), supermarket's convenience (convenience value), supermarket's store environment (emotional) and supermarket's gearing to particular

social class or classes (social value). Thus, this study attempts to advance Sweeney and Soutar (2001) perceived value model by adapting to retail context.

Also, the study makes dimensions suitable to be paired retail outcome construct, namely the supermarket choice. Store choice is a retail outcome construct where customer made choice of store based on perception of store attributes (Engel, et al., 1995). Perceived value dimensions are perceptions on the usage of the product and not the store. If these dimensions were to influence the store choice construct, there is little theoretical value to gain for store choice in this logical relationship because the choice accounts for evaluation not just on the product but on store environment and amenities as well (Engel, et al., 1995). But in this study, it will adapt perceived value dimensions to supermarket context in hope that it will be suitable to investigate with supermarket choice. So, the dimensions of perceived value will become more retailing friendly to understand retailing outcome.

Fourth, the study contribution relates to consumer behaviour literature. Multidimensional perceived value is rooted from consumer behaviour psychology (Sánchez-Fernández & Iniesta-Bonillo, 2007) as the dimensions could determine consumer behavioural outcomes and intentions (Chu & Lu, 2007; Julian Ming-Sung, et al., 2009; Ruiz-Molina & Gil-Saura, 2008; Shu-Ching & Quester, 2006; Turel, et al., 2007). Thus, this study will add the consumer behaviour literature by modeling the dimensions of value with consumer behaviour constructs such as consumers' store attitude and consumer supermarket choice behaviour. Thus, this study will provide richer insight about understanding how shopper made decisions and behaviour.

### **1.6.2 Practical significance**

This study would like to present several practical significances. First, it helps the supermarket retailers to build competitive advantage. In order to achieve competitive advantage, understanding customer needs and wants are essential. Thus, supermarket retailers should stock merchandise according to the customer needs so to reduce their risk (the store) when they buy in bulk to achieve economies of scale. Ideally, the store will not have money trapped in form of stocks which will devalue as time passes. Thus, this will assist the supermarket to gain competitive advantage over other grocery competitors.

Second, the study presents another significance that is related to crafting a better supermarket strategy. In designing strategy, local supermarket retailers need to consider that grocery shoppers perceive their store in terms of value when making supermarket choice. As such, by understanding what is the store features that the customer values, it can improve the supermarket to further achieve its vision, mission and objectives. For example, it helps to formulate retention strategy where the same customers could repatronage the supermarket. In another instance, it assist supermarket to do a differentiation strategy by offering better services, merchandise and facilities to match against its rivals, namely the hypermarkets. Another illustration is the retailer could design marketing communication programs that advertise supermarket with focus on store's offerings and features that customer appreciate.

Third, this study will help supermarket in providing benefits that are added value to customers. Retailers must understand that value is not restricted to price alone but also other dimensions. The supermarket could offer convenience, comfortable environment,

amenities and superior service as added benefits in hope that customers will perceive that their spending are worthwhile. Therefore, this study will provide ideas to local supermarkets to offer value added benefits to edge over hypermarket, which touted to offer lowest grocery prices in the Malaysian market.

### **1.7 Definition of terms**

These are the definitions of the terms used in this study.

#### **Perceived value**

“Perceived value is the consumer’s overall assessment of the utility of a product based on perceptions of what is received and what is given.” (Zeithaml, 1988, p. 14). For the purpose of this study, the study have redefined it as consumer’s overall assessment of the utility on the supermarket store based on perceptions of store’s benefits received and prices paid.

#### **Monetary value dimension**

“The utility derived from the product due to the reduction of its perceived short term and longer term costs” (Sweeney & Soutar, 2001, p. 211). For the purpose of this study, monetary value dimension refers to utility derived from supermarket’s reduction in grocery prices.

### **Functional quality value dimension**

“The utility derived from the perceived quality and expected performance of the product” (Sweeney & Soutar, 2001, p. 211). For the purpose of this study, the product refers to supermarket groceries.

### **Convenience value dimension**

Convenience value is defined as “...savings in the time and effort required to acquire the product” (Sheth & Mittall, 2004, p. 25). In addition, convenience value also defined as “...related to how easily customer can purchase desired products and services and finish the transaction.” (Lun & Xiaowo, 2008, p. 397). This dimension refers to customer experience with the convenience of grocery shopping provided by the supermarket store.

### **Emotional value dimension**

“The utility derived from the feelings or affective states that a product generates” (Sweeney & Soutar, 2001, p. 211). This study defined this dimension as utility obtained from feelings generate by the supermarket.

### **Social value dimension**

“The utility derived from the product’s ability to enhance social self-concept (Sweeney & Soutar, 2001, p. 211). In this study, social value dimension refers to utility of the supermarket’s ability to enhance social self-concept of the shopper.

### **Attitude toward the store**

Attitude is “...a learned predisposition to behave in a consistently favorable or unfavorable manner with respect to a given object” (Schiffman & Kanuk, 1997, p. 397). In this study, the given object is the store and therefore giving the term customer attitude toward supermarket store.

### **Supermarket**

“The supermarket is a large departmentalised, self-service organization selling primarily food” (Diamond & Pintel, 1996, p. 14). For the purpose of this study, this definition applies to locally own supermarkets and excluded foreign own ones.

### **Supermarket choice**

“The selection of one brand from a consideration set of alternative brands” (Peter & Olson, 1999, p. 512). In this study, the study refers the ‘brand’ and ‘alternative brands’ in this definition as ‘stores’ and ‘alternative stores’ respectively in context of supermarket.

## **1.8 Organisation of the thesis**

This thesis has five chapters. This first chapter already provided the background of the study, the research problem, research objectives, research questions, scope of the study, contributions of the study and definition of key terms.

In Chapter Two is a literature review which consists of several sections. It begins with retailing industry in general and in Malaysia context. Later, this chapter provides underpinning theory, a table list of store choice researches, discussion on perceived value dimensions and a discussion on customer attitude toward the store. A theoretical framework will set out the study's model and hypotheses to be tested. A conclusion is presented at the end of this chapter.

Chapter three discusses research methodology. This chapter explains on how the study's methodology is used to achieve the research objectives. It also includes information on research design, unit of analysis, the population, sampling technique, data collection procedure, the research instrument and statistical analysis.

Chapter four provides the data analysis and findings. It starts with descriptive findings and provides information on profile of the respondents. Next, it will discuss findings using advanced data analysis.

Final, chapter five presents a discussion and conclusion of the study. The discussion will be based on research objectives. There is recapitulation of the study and discussion of findings. Theoretical, practical and national contributions will be provided also in this chapter. The limitations of the research and directions of future research are also provided in this chapter. A conclusion is given to close the entire study.



## **CHAPTER 2**

### **LITERATURE REVIEW**

In this chapter, it will first discuss store choice studies made in the past. Second, it will present the concept of perceived value concept. Third, there will be discussion on perceived value dimensions one by one. This will continue with discussion on customer attitude toward the store, followed by theoretical framework with the study's list of hypotheses. Final, the chapter ends with a summary.

#### **2.1 Overview of retailing**

The core functions of retailing are worth to be highlighted here (Levy & Weitz, 2008). First, a retailer provides assortments for customers to choose what they want. Second, a retailer breaks bulk of bigger stocks into smaller quantities for individual or household consumption. Third, retailer holds very large inventory and stocks for customers replenish their needed goods and eliminating the need to hold large quantities of goods at customers' home. Last but not least, the retailer provides various services to assist customer in buying and consuming the goods. Therefore, it is important for retailers to perform the core functions as highlighted.

Generally, there are two broad forms of retailing. The first form is person to person and the second one is nonperson to person (Newman & Cullen, 2002). The person to person is a traditional retailing setting where it involves the customer to directly interact with the store personnel. The interaction depends on the distance between the customer and the personnel. If the store is located close to the customer,

then he or she will physically come to the store. In cases where the store far located from the customer, the customer may resort to telephoning the retail store personnel. In the second form of retailing, namely nonperson to person, customer does not directly interact with store personnel. For instance, a vending machine is used by the customer themselves to purchase in self-service manner. There are other examples under this form of retailing such as ordering via email, internet or snail mail. Thus, the two forms of retailing can have variation of interactions between the retail store and the customer.

The sale of goods (known as merchandise in retailing) is most important to retail stores as it will generate the store's sales and income. There are many categories of merchandise that a retailer can sell to its final customers. Department stores, specialty stores, category killers and grocery stores have their own specialisation in terms of merchandise. A department store sells clothing, accessories, home furnishings, furniture, kitchen ware and small sized appliances (Levy & Weitz, 2001) while a specialty store may concentrate on few but complementary categories. A category killer is basically a very large specialty store that focused on a major category such as either home improvement, office-supply chains or consumer electronics category (Pride & Ferrell, 2010). However, grocery store is one that sells staple foodstuff, meat, produce, milk-based products and household items (Levy & Weitz, 2001). Thus, regardless of any kind of merchandise, these will add retailer's income when these are successfully sold.

### **2.1.1 Types of grocery retail shop**

Grocery store is a generic form of grocery retailing. Under grocery store, there are different formats available with each of them having their own characteristics. One

prime example is the supermarket format. Supermarkets are “large, self-service stores that carry a complete line of products, as well as some nonfood products such as cosmetics and nonprescription drugs” (Pride & Ferrell, 2010). The self-service process in the supermarket involves the customer to select goods from the aisles, place on the carts and when finish selecting items they need, they will proceed to the checkout counter for payment (Meyer & Harris, 1988). The size of the supermarket store is under 100,000 square feet (Rogers, Gamans, & Grassi, 1992). Usually supermarket carries about 15,000 SKUs (stock keeping unit) (Leibtag, 2005, November). As it is a self-service store, it sells food divided into grocery, meat and produce departments. Apart from food, nonfood such as health and beauty aids, housewares, prescription drugs, magazines and small appliances are available (Rogers, et al., 1992). In addition, supermarkets usually offer a deli service and also a bakery (Leibtag, 2005, November). The supermarkets are usually located inside the city centres (Kirchgaessner & Dalvito, 2002; Rose, 2006). Lamb, Hair Jr. and McDaniel (1999) pointed out that generally supermarket prices are competitive.

Another competing format to the supermarket is the hypermarket. The word hypermarket can be traced from France, as Tiwari (2009) stated that this word is derived from ‘hypermarche’. Hypermarket is a “retail self-service establishment offering a broad range of food and nonfood products...” (OECD, 2004). Hypermarkets, like supermarkets, give the customer facility to self-service themselves during shopping. A hypermarket has store size of 250,000 square feet (Dunne & Lusch, 2008), a size that is two times of an average supermarket. Due to its sheer size, hypermarket could offer 200,000 SKUs, ranging from apparel to electronics to fresh groceries in one stop (Dunne

& Lusch, 2008). This beats the assortment offered by supermarket in terms of variety. However, hypermarket assortment contains less focus on food, which comprised of about 30% as the rest of percentage is devoted to general merchandise (Rogers, et al., 1992). Commonly, price levels in the hypermarkets are lower than supermarkets because it has the advantage to purchase in bulk from suppliers and translates the bulk as lower prices for the customers (D'Souza, 2010). Although supermarket prices are competitive as mention earlier, hypermarkets could also offer lowest price level due to its sheer advantage in sourcing from suppliers. Hypermarket tended to establish at out of town areas (Choi Ji-young, 2009; Cox & Brittain, 2004; Kirchgaessner & Dalvito, 2002). Thus, these are the characteristics of supermarket and hypermarket.

### **2.1.2 Retailing and consumer behaviour**

Most researchers will agree consumer behavior is a study of behavior demonstrated by consumers that search, buy, use, evaluate and dispose of products or services that are expected to satisfy the needs of the consumer (Schiffman, Hansen & Kanuk, 2008). Consumer behavior is a field of study that focuses on how the consumer makes decisions to spend their resources (money, time and energy) on items to consume. Questions of what they buy, why they buy, where they buy, how often they buy, how they evaluate the product or service pre and post purchase and how they dispose are inquiries asked interested consumer behaviourist (Peter & Olson, 1999).

Basically, there are two types of consumers, the personal consumer and organisation consumers. Organisation consumers are customers that buy the products for business purpose. They could consist as profit, nonprofit business, government agencies

and institutions. For example, schools, various government departments and hospitals. Organisation consumers will buy equipment and services that are necessary for running the operations of the organisations. However, on the other hand, personal consumer is the one that buy goods and services for his or her own use or for household use or as a gift for friend. These consumers also known as end users as the products bought are used for one last time.

One of the most interesting topics on consumer behaviour is the consumer choice. Choices are decisions that consumer select one product from a set of possibilities (Kardes & Steckel, 2002). It is discrete and never continuous. The consumer could decide to buy or not buy. Choice is based on a judgment if the consumers have positive attitude toward the product, the more likely they choose it (Kardes & Steckel, 2002).

Consumers could make choice on almost anything. There is study of brand choice, a choice by consumer selecting brands and product choice, a choice by selecting different product. However, consumer could make a choice which store to go. This is called store choice (Engel, Blackwell & Miniard, 1995). Its choice is not predicted much by product attributes such as brand, color or taste but the attributes of retail store (Solomon, 2007). Therefore, store choice is very relevant in consumer behaviour.

### **2.1.3 Retailing in Malaysia**

The retailing system in Malaysia begins as bartering during Old Malaya period. In tracing the past of Malaysia's retailing, Table 2.1 presents a summary of retailing history with milestones, the types of retail store and other details.

Table 2.1

*History of Retailing in Malaysia*

<b>Period</b>	<b>Retailing type</b>	<b>Remarks</b>
Pre19 <sup>th</sup> century	Trading and Bazaar	<ul style="list-style-type: none"> <li>• Retailing in Malaya (old name for Malaysia) revolves around barter system or also known as trading system (Zainal Abidin Mohd. Said, 1989).</li> <li>• The prime retailing system is bazaar, which means market in Arabic (Rohaizat Baharun, 1997). Their existence means those bazaars are old traditional markets. These are found in towns that have historical background of... Indian Muslims and Arab merchants such as Johor Bahru, Malacca, Alor Star and Penang (Rohaizat Baharun, 1997).</li> </ul>
Pre1960s	Stalls and mobile hawkers	<ul style="list-style-type: none"> <li>• The typical retailing is mostly bicycle and they are sellers carrying goods by poles that found located in many parts of the country (Belshaw, 1965).</li> </ul>
British colonization in Malaya	Traditional provision shops	<ul style="list-style-type: none"> <li>• The retailing system evolves to more permanent retail stores.</li> <li>• Mainly owned by the Chinese (early migrants arrived in Malaya), which came in massive numbers after World War I (Zainal Abidin Mohd. Said, 1989).</li> <li>• The provision store is established and its operations are traditional, small in size and run by families (Rohaizat Baharun, 1997)</li> <li>• The stores mostly offered wet and dry foodstuff with household goods. Some Chinese shop owners attempted to specialise their groceries by just selling imported foodstuff (Zainal Abidin Mohd. Said, 1989).</li> <li>• The focus of such stores is to complete customer transactions (Ling, 2003, October).</li> <li>• Many of the stores are located at rural areas as it will draw bigger customer base from the neighbourhood.</li> </ul>
1960s -1980s	Supermarket	<ul style="list-style-type: none"> <li>• Supermarket did not come itself directly to Malaysia because it was first started as department store (Zainal Abidin Mohd. Said, 1989). The department store, a western influence retail store in Malaysian context, set their merchandise at fixed prices (Rohaizat Baharun, 1997).</li> </ul>

Table 2.1 - Continued

Period	Retailing type	Remarks
		<ul style="list-style-type: none"> <li>• Merchandise on sale was clothes with no groceries offered and are arranged in systematic fashion (Rohaizat Baharun, 1997).</li> <li>• However, supermarket came late at year 1963 (Zainal Abidin Mohd. Said, 1989).</li> <li>• In the 1970s, supermarkets were established... in many urban areas of the country (Rohaizat Baharun, 1997).</li> <li>• Supermarket offered food and nonfood items, all under a single roof. Some supermarkets were advanced as they sold frozen food and have open top refrigerators (Rohaizat Baharun, 1997) in addition to selling fresh food.</li> <li>• An international description of supermarket includes departmentalised grocery, meat and produce sections (Leibtag, 2005). This was also the case for Malaysia too</li> <li>• Supermarkets provided clean, comfortable, air-conditioned environment with multiple checkout counters, convenience facilities and parking spaces for shoppers who drive cars (Zainal Abidin Mohd. Said, 1989).</li> <li>• These supermarkets have provided new shopping experience for the locals in Malaysia.</li> <li>• According to Ministry of Domestic Trade, Co-operatives and Consumerism, the supermarket size in Malaysia is less than 2,000 square meters sales floor (Malaysia, 2010b).</li> </ul>
1980s	Supermarket in Shopping Centres	<ul style="list-style-type: none"> <li>• In the 1980s, foreign supermarkets have more stronghold presence in Malaysia where they are better in terms of decoration, quality and technology (Zainal Abidin Mohd. Said, 1989).</li> <li>• For example, Kimisawa supermarket from Japan first open in Malaysia during that time (Mycen, 2013).</li> <li>• Most Japanese retailers opened as shopping centres, which consist of outlets and service facilities in a single building (Rohaizat Baharun, 1997). Such complexes have a wide variety of recreational and dining facilities. During the 1990s, facilities such as cinema, bowling alleys, theme parks and dining outlets were added in shopping centres (Rohaizat Baharun, 1997).</li> </ul>

Table 2.1 - Continued

Period	Retailing type	Remarks
		<p>The recreation and dining facilities could increase the patronage not only the shopping centre but the inside supermarket as well, all located under one roof (Rohaizat Baharun, 1997).</p> <ul style="list-style-type: none"> <li>• The supermarket set inside shopping centre has become a trend, which is later followed by other supermarkets in the country (Rohaizat Baharun, 1997).</li> </ul>
1990s	Hypermarket	<ul style="list-style-type: none"> <li>• With the existence of supermarket, the grocery sector in Malaysia is transformed again with hypermarket and cash and carry stores joining the Malaysian retailing bandwagon (Ling, 2003).</li> <li>• In year 1993, Makro cash &amp; carry store opened as a result of Dutch Malaysia joint venture (Ling, 2003).</li> <li>• Makro's main business is to sell bulk to independent small and medium sized retailers. However, individual users are still catered by Makro (Ling, 2003).</li> <li>• After the inception of Makro, French hypermarket chain, Carrefour arrived to Malaysian hypermarket scene.</li> <li>• Another hypermarket retailer emerged later called Giant. In year 2002, the final hypermarket retailer in Malaysia is Tesco, originated from the United Kingdom (Ling, 2003, October). Hypermarket sources merchandise in large volumes at low cost, which enable hypermarkets to offer lower prices to its customers (Ling, 2003).</li> <li>• The hypermarket size is about 5,000 square meters (Malaysia, 2010b) and it could reach to more than 8,000 square meters (Malaysia, 2006).</li> <li>• Similar to the supermarkets, hypermarkets have air-conditioned environment, large floor spaces and are comfortable.</li> </ul>

Today, the retailing system plays an important role in Malaysia's economy. The country has achieved a GDP growth of 7.2% in year 2010, largely attributed to service sector (3.9%), which includes retailing (Malaysia, 2011). The contribution from retailing is positive to the economy because wholesale and retail businesses recorded a jump of



growth, from a minute 1.2% (2009) to 7.9% (2010). Based on these figures, retailing plays a significant role in Malaysia's economy. Thus, it is important for retailing industry to have sustained growth as it assists the country's economy performance.

As mention in 2.1.1, a retailer could choose to sell any categories, including groceries. In Malaysia, there are very large numbers of retailers selling groceries. Of late, the grocery retailing sales has chartered growth year by year especially from year 2006 when it is registered at over RM26,000 million, which later increase to RM33,463 million by year 2011 (see Table 2.2). This suggested that grocery sales have been encouraging in the country. Therefore, it is forecasted that the figure for coming years will be much higher based on the trend of annual grocery sales in the country.

Table 2.2

*Sales (RM Million) in Store-Based Grocery Retailing From Year 2006 to 2011*

<b>Year</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>RM Million</b>	26,612.5	27,868.7	29,917.2	31,084.1	32,097.8	33,463.0

Source: Euromonitor International (2012a)

Malaysia is a country blessed by many grocery stores. From the Table 2.3, majority of companies operate grocery retail businesses as chain stores. For instance, most of the hypermarkets and supermarkets operated chains such as Giant, Tesco and Cold Storage. The reasons for grocery businesses to operate as chain outlets revolve around the strategic advantages. They could gain much on economies of scale, bargaining buying power (Berman & Evans, 2001; Dunne & Lusch, 2008), store image enhancement (by their increase presence throughout different locations) (Berman & Evans, 2001) and fix costs sharing (Dunne & Lusch, 2008). Further, the chain could